

Message Text

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PAGE 01 MANILA 08577 180743Z

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USADB

FOR NAC AGENCIES

E.O. 11652: DECLAS 12/31/75

TAGS: EAID, EFIN

SUBJ: DEVELOPMENT BANKS

SUMMARY: PRELIMINARY ADB STAFF WORKING PAPER (1) DISCUSSES BANK'S POLICIES REGARDING DEALINGS WITH DEVELOPMENT BANKS AS DESCRIBED IN 1969 AND 1970 POLICY PAPERS AND GUIDELINES ON VARIOUS ISSUES THAT NEED TO BE REVIEWED AND (2) PROPOSES REVISIONS IN LIGHT OF SUBSEQUENT EXPERIENCE. AFTER BOARD OF DIRECTORS DISCUSS INITIAL DRAFT, REVISED WORKING PAPER IS EXPECTED TO BE PREPARED WHICH WILL INCLUDE CONCLUSIONS AND RECOMMENDATIONS. END SUMMARY.

1. ADB WORKING PAPER 7-74 ENTITLED "DEVELOPMENT BANKS" POUCHED JULY 17. BOARD DISCUSSION SCHEDULED AUGUST 15.
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PAGE 02 MANILA 08577 180743Z

2. DOCUMENT IS PRESENTED AS STAFF WORKING PAPER. IT DISCUSSES BANK'S POLICIES REGARDING DEVELOPMENT BANKS AS DESCRIBED IN 1969 AND 1970 WORKING PAPER, WITH REVISIONS AND ADDITIONS THAT ARE CONSIDERED TO BE NEEDED IN LIGHT OF FURTHER EXPERIENCE. IN MOST CASES, WORKING PAPER ATTEMPTS TO FORMALIZE POLICIES THAT HAVE EVOLVED SINCE THE EARLIER DOCUMENTS WERE WRITTEN. HOWEVER, IN REGARD TO AT LEAST TWO SIGNIFICANT ISSUES, POLICY CHANGES ARE ANTICIPATED:

A. INTEREST RATE - PRESENT POLICY IS TO ACTIVATE LOAN IN STAGES BY CREDITING LOAN ACCOUNT AS AND WHEN DEVELOPMENT FINANCE INSTITUTION (DFI) FINALIZES EACH SUBLOAN AND TO FIX EACH SUBLOAN CREDITED TO LOAN ACCOUNT AT INTEREST RATE PREVAILING AT THAT TIME FOR BANK'S ORDINARY OPERATIONS. ISSUE RAISED IS WHETHER TO ADOPT POLICY (SIMILAR TO IBRD) WHEREIN ENTIRE LOAN AMOUNT WOULD BE CREDITED TO LOAN ACCOUNT ON DATE WHEN LOAN BECOMES EFFECTIVE AND APPLY FIXED INTEREST RATE ON BASIS OF PREVAILING RATE FOR BANK'S ORDINARY OPERATIONS AT TIME LOAN IS SANCTIONED. ADJUSTMENT ALSO BEING CONSIDERED TO BRING BANK'S POLICY OF LEVYING COMMITMENT CHARGE FOR DEVELOPMENT BANK LOANS IN LINE WITH POLICY RE PROJECT LAONS FROM ORDINARY RESOURCES.

B. PROCUREMENT - PRESENT POLICY PERMITS PURCHASES BY DFI SUB-BORROWERS ON BASIS OF "REASONABLE COMPETITION" FOR SMALL-VALUE ORDERS, "INTERNATIONAL SHOPPING" FOR MEDIUM-SIZED ORDERS, AND "INTERNATIONAL COMPETITIVE BIDDING" FOR LARGER-VALUED ORDERS. (SPECIFIC LIMITS VARY FOR DIFFERENT DFIS ON BASIS OF PAST EXPERIENCE, SCALE OF INDIVIDUAL OPERATIONS AND CAPABILITY TO ENSURE PROCUREMENT OF SUITABLE GOODS AT REASONABLE PRICES.) DFIS HAVE CONSISTENTLY CRITICIZED BANK ON ITS RIGID PROCUREMENT POLICY, AS COMPARED WITH IBRD. (SAME CRITICISM HAS BEEN COMMUNICATED BY VARIOUS DFI OFFICIALS TO USADB STAFF MEMBERS DURING INSPECTION VISITS TO ADB BORROWING COUNTRIES.) IN THIS REGARD, WORKING PAPER MAKES STRONG CASE AGAINST USE OF INTERNATIONAL COMPETITIVE BIDDING UNDER DFI SUBLOANS, BECAUSE IT APPEARS TO RESTRICT DIVERSIFICATION OF PROCUREMENT AND MAY ENCOURAGE ONLY LESS QUALIFIED SUPPLIERS TO BID WHERE ORDERS ARE NOT SUBSTANTIALLY LARGE. USADB LIMITED OFFICIAL USE

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PAGE 03 MANILA 08577 180743Z

STRONGLY SUPPORTS BANK'S ASSESSMENT AS BEING IN BEST INTERESTS OF U.S. SUPPLIERS. IN SUPPORT OF THIS POSITION, ATTENTION IS CALLED TO SECOND TABLE ON PAGE 29 OF WORKING PAPER WHICH INDICATES THAT U.S. SOURCES HAVE WON NO RPT NO PROCUREMENT CONTRACTS TO DATE UNDER DFI SUBLOANS WHERE INTERNATIONAL COMPETITIVE BIDDING IS REQUIRED. USADB THEREFORE BELIEVES USGOVT SHOULD ACTIVELY SUPPORT RELAXATION OF EXISTING PROCEDURE FOR DFI LOANS.

3. OTHER ISSUES DISCUSSED IN WORKING PAPER RELATE TO SUCH MATTERS AS INTEREST SPREAD, DEBT/EQUITY RATIO, FREE LIMIT, BANK'S ATTITUDE TOWARD GOVT OWNERSHIP AND CONTROL OF DFIS, LENDING LIMIT TO SINGLE BORROWER, AND PURPOSES TO WHICH ADB FUNDS MIGHT BE PUT (E.G., WORKING CAPITAL, PUBLIC SECTOR FINANCING, EQUITY INVESTMENT AND FINANCING SUBSIDIARIES OF FOREIGN-OWNED FIRMS.) USADB WOULD APPRECIATE NAC COMMENTS PRIOR TO AUGUST 15 BOARD CONSIDERATION. INTENTION IS TO HAVE REVISED PAPER PREPARED WHICH WILL TAKE INTO ACCOUNT VIEWS EXPRESSED BY BOARD AND INCORPORATE SECTION ON CONCLUSIONS AND RECOMMENDATIONS FOR SUBSEQUENT CONSIDERATION.
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